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# The European Central Bank, machinic enslavement, and the Greek public sector

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## Abstract

This article investigates the role of the European Central Bank (ECB) in transferring financial and moral responsibility for the Eurozone crisis from the private to the public sector. Focusing on Greece, I argue that the ECB constructed the morality of the public debtor in such a way as to make this transfer of responsibility easier and the imposition of austerity measures justifiable. This in part relied on a shift in the ECB's discourse, which came to define the crisis exclusively in terms of public sector responsibility. However, the ECB also employed a range of non-linguistic policy measures aimed at intervening in the crisis. To interpret these measures I draw on Deleuze and Guattari's concept of 'machinic enslavement', arguing that the ECB contributed to the Greek crisis not only by defining it discursively but also by reshaping the country's financial infrastructure in crucial ways.

## Keywords

European Central Bank, debtor, public, private, morality, machinic enslavement

## Introduction

This article investigates the Greek financial crisis and the role of the European Central Bank (ECB) in transferring responsibility from the private to the public sector. The ECB achieved this not simply by shaping the discussion of the crisis but also, and more importantly, through specific policy measures that intervened in the country's financial infrastructure. My starting proposition is that the so-called Eurozone crisis, with Greece at its centre, is a manifestation of discrepancies within the monetary union that were brought to light by a second wave of the financial crisis that originated in the United States (US). At the same time, the private and public sectors in Greece have become inextricably intertwined. As a consequence, the public sector experienced enormous burden and subsequent deterioration of its own positions by repaying central European creditors and endorsing Greek private banks (Lapavitsas, 2012;

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Varoufakis, 2015). This transfer of risk and liabilities from the private to the public sector was accompanied by a shift of political and moral responsibility for the crisis in the same direction. The ECB was operating, in the terms of Deleuze and Guattari (1987: 82), as a gigantic “assemblage”. It was an economic and political system of power that endorsed private banks across the Eurozone through a spectrum of policy measures, while at the same time showing reluctance to support sovereign borrowers. As Joseph Stiglitz (2016: 156) points out, these measures have had profound distributional consequences: “The prioritization of banks over citizens”, he writes, “was as evident in Europe as it was in the United States during the crisis”.

The aim of this article is to develop a genealogy of the ECB’s influence over the Greek crisis through the domains of ‘knowledge production’, policy measures imposed by the central bank, and institutional interventions via the Troika. I employ this genealogical method in order to demonstrate how a substantial shift in the ontological and epistemological horizons of the crisis occurred (Roitman, 2013). The shift was produced between the early phase of the crisis, from 2009 onwards, when uncontrolled and powerful European and Greek banks were subjected to ferocious theoretical and political scrutiny, and a later phase, from 2010 onwards, when the allegedly profligate, lazy, and morally corrupt Greek public sector was singled out as the main cause of economic turmoil. This change was not an accident, but was rather a deep and complex embodiment of the polymorphic and heterogeneous systems of power described by Phillip Mirowski (2013: 6) as the “Neoliberal Thought Collective”. As Mirowski shows in the context of the US credit crunch, different elements were mobilized in the strategic blame game to generate a change in public understanding concerning the economic causes and ethical consequences of the financial implosion Greece experienced.

In what follows, I argue that the morality of the debtor is always at stake in credit-structured constellations, which amount to complex and asymmetric systems of power (Lazzarato, 2012; Graeber, 2011). To do this I draw upon Lazzarato’s (2012, 2014) elaboration of Foucault (2010) as well as Deleuze and Guattari (1987, 2004), applying these theoretical resources to the perilous economic situation Greece experienced in the wake of the global recession, when its GDP decreased and tax revenues dropped as a direct consequence of the American credit crunch. In particular, I use the concept of ‘machinic enslavement’ to elucidate the effects of the ECB’s policy measures. This concept draws our attention to how the ECB’s control over indebted subjects, including both individuals and nations, was exercised not simply through its production of reports, analyses, and the like, but also through a repertoire of ‘a-signifying’ or non-discursive strategies, such as interest rates, policy measures, intervention in markets, market indexes, and prices for sovereign bonds.

## **Morality of the public sector**

Lazzarato (2012) emphasises how the making of an indebted subject always entails two interconnected registers: the production of indebtedness through financial instruments, on the one hand, and the production of subjectivity, on the other. He argues that a credit relation is always accompanied by assessment of life, habitus, the morality of the debtor, and practical changes in the subject’s form of existence. As ECB and IMF reports show (and their political interventions in Greece demonstrate), average working hours, time available for holiday, salaries and state privileges, national health insurance, maternity leave, and appropriate age for retirement are all at stake in ‘structural reforms’. Lazzarato affirms such connections between economic knowledge and elements of everyday life. He also identifies the tendency to explain economic struggle and poverty as a lack of adequate self-management, including work

ethic and uncontrolled (or 'immoral') spending habits, rather than the manifestation of capitalism's inherent destructiveness: "To make an enterprise of oneself (Foucault) – that means taking responsibility for poverty, unemployment, precariousness, welfare benefits, low wages, reduced pensions, etc., as if these were the individual's 'resources' and 'investments' to manage as capital, as 'his' capital" (Lazzarato, 2012: 51).

In analysing the evolution of the ECB's policy measures and institutional influence as well as its production of knowledge regarding the crisis, I endeavour to re-politicise and re-socialise our understanding of finance (de Goede, 2005). Moreover, I seek to reaffirm this in the context of "the non-economistic understanding of economy" (Lazzarato, 2012: 42). Lazzarato expands on the work of Foucault and Deleuze and Guattari in this respect: "economic production involves the production and control of subjectivity and forms of life; economy presupposes a 'morality of custom'; desire is part of the 'infrastructure'" (p. 42). This is why the morality of the debtor is always at stake in any credit-structured constellation, as Nietzsche (1994: 39) argues in *On the Genealogy of Morality*, when he connects *Schuld* (guilt) and *Schulden* (debts) (see also de Goede, 2005: 156; Lazzarato, 2012: 30). Finally, and most importantly, as Deleuze and Guattari (2004) point out in *Anti-Oedipus*, markets are not constituted to maintain the exchange of entities with equal value, nor to represent economic or indeed any other fundamentals, but rather to intensify domination through unequal exchange. Deleuze and Guattari do not place ideology in a representational register and superstructure, nor do they oppose it to economic infrastructure. Instead they analyse economic reality through the complex notion of the 'assemblage', which consists of different forms of social bodies, on the one hand, but is also capable of having its own forms of enunciation, on the other. Deleuze and Guattari (1987: 82) compress these two domains – superstructure and infrastructure – in the field of immanency, which is to say that these domains are intertwined and interact simultaneously: "perhaps economics or financial analysis best demonstrates the presence and instantaneousness of these decisive acts in an overall process (that is why statements definitely do not belong to ideology, but are already at work in what is supposedly the domain of the economic base)".

The political economy of affect has been an integral part of Deleuze and Guattari's social assemblage since their early work on Kafka. This is an additional advantage of their theoretical approach for analysing the financial crisis, because all epistemological forms have been produced in conjunction with a moral analysis of power relations and the production of the immoral debtor. As Lazzarato (2014: 31) underscores, "machinic enslavement activates pre-personal, pre-cognitive, and pre-verbal forces (perception, sense, affects, desire) as well as supra-personal forces (machinic, linguistic, social, media, economic systems, etc.) which, beyond the subject and individuated relations (intersubjectivity), multiply possibilities". The forms of ECB enunciation in the 'superstructure' (reports, analyses, press releases) and the forms of financial production in the infrastructure (interventions through interest rates or redefinition of collaterals, currency swaps or Troika measures) are expressions of the same power, and should therefore be analysed together. This is the approach I take in this article.

## Causes of the implosion and the epistemology of the crisis

The Greek crisis is usually imagined and explained as the exclusive result of national economic and political problems, most often in the form of the country's allegedly bloated, dysfunctional, and flawed public sector. Yet while the Greek public sector does have numerous flaws and these did indeed contribute to the economic implosion, public debt and budget deficits are not

the most important, let alone the only reasons for the crisis (see Fouskas and Dimoulas, 2013; Triandafyllidou et al., 2013; Pogatsa, 2015). In addition, it must be pointed out that the Greek financial system had been substantially de-localised before the crisis through investments from central European countries, the operation of financial derivatives, and international ownership of the biggest Greek banks and companies. The strategic blame game is thus played out in a constellation that confuses practices and metaphors about the public and private sectors. Following Mirowski, we can think of this as another iteration of Gary Becker's claim that the only way to reduce inefficiency and corruption in the public sector is to cut it.

As Mirowski shows, neoliberal forces managed to regroup quickly and absorb the initial shock of the 2008 crisis, only to start producing analyses aimed at exclusively blaming government:

[N]ot unexpectedly, 'government' was fingered as the culprit in all successful variations; but the detailed narratives have been recast to appeal to particular nations or geographical areas. In the United States, the neoliberal touchstone has become 'blame it all on Freddie Mac and Fannie Mae', whereas in Europe the cry has become 'blame it all on the PIIGS and Brussels bureaucrats'. (Mirowski, 2013: 301)

Mirowski (2013: 96) credits Foucault with diagnosing "ignorance as the linchpin of the neoliberal order" because it maintains the status quo. Further, the above manoeuvre shifts responsibility for the crises from the private sector, with finance at its centre, to the public sector, government institutions, and policies always associated with non-market dysfunctionality and the propensity for corruption and inefficiency.

A similar practice was at play in the context of the Greek public sector, which was under constant scrutiny and critique even though in terms of the number of employees (as percentage of all employed) as well as the volume of public expenditure it was far lower (as percentage of GDP) than the Organisation for Economic Cooperation and Development (OECD) average (Pogatsa, 2015: para. 2). Also, on average Greek workers spend more time in their jobs than German workers and far more than Dutch workers, according to official OECD statistics (Chang, 2013: par. 9). In terms of corruption, at the beginning of the crisis Greece was at the same level as the Czech Republic or South Korea, according to Transparency International (Pogatsa, 2015: para. 5). Nevertheless, catchy stories about the bloated and inefficient Greek public sector sucking the financial blood from healthy Eurozone bodies had already been launched and fell on fertile ground.

In this context, it is important to note that the enormous increase in overall Greek indebtedness during the 2000s as a percentage of GDP came mostly from the rise of debt in the private sector. As Lapavitsas et al. explain:

Greek public debt had declined significantly as a proportion of total debt, though it has remained considerably higher than in Spain and Portugal ...The sectors whose debt has risen significantly in proportionate terms were banks and households. For Greece, joining the EMU has brought rapid financialisation, more opportunities for Greek banks to engage in lending, and growing household indebtedness to support consumption. (2012: 95)

The internal economic and political problems of Greek society notwithstanding, Greek citizens did not precipitate the crisis. A greater economic constellation was at play.

After the subprime crisis in 2008, the global economy slowed down and tax revenues consequently decreased in the rest of the world, including in the Eurozone. In the aftermath of the credit crunch, deteriorating positions of public debts as a proportion of GDPs were not, of course, just a Greek phenomenon: "According to the IMF, general government debt between



2008 and 2014 increased from 65% of GDP to 79.8% globally, from 78.8% to 105.3% in advanced economies and from 68.6% to 94% of GDP in the Euro area" (TCPD, 2015: 20-21). In addition, welfare states were under pressure due to increased unemployment in the wake of the recession. Finally, states experienced unprecedented burden on their balance sheets because of the massive bailouts of private finance. At the same time, crediting conditions for sovereign borrowers had started to worsen because most private lenders were experiencing solvency and liquidity problems. These issues produced higher interbank rates and higher rates for all kinds of debtors. As Hein points out:

In the course of the crisis, government deficits increased in order to stabilize the private economic and financial sectors and government gross debt-GDP ratios jumped up. These empirical developments seem to be among the reasons why the euro crisis is considered as a crisis of government deficits and debts by many observers – above all by the dominating economic policymakers in Germany, the European Commission and the European Council. Superficially, this view seems to have some merit. (2015: 125)

If one looks carefully at the countries affected by the Eurozone crisis (Greece, Portugal, Spain and Ireland), it is impossible to conclude that budget deficits and public debt before the credit crunch were main cause for their economic turmoil. Spain, for example, had a budget surplus in 2007 of 1.9% and public debt/GDP of just 36.3%. In both categories Spain was, at that time, better than Germany. Thus, one should instead look to the global recession as well as the huge current account deficit that is a consequence of internal discrepancies within the Eurozone, if they really want to find the common denominator for all these troubled economies in the Eurozone periphery (see Krugman, 2012a; Lapavistas et al., 2012; Stiglitz, 2016).

In her book *Anti-Crisis*, Roitman (2013) shows how every crisis, whether historical or financial, opens a space for epistemological confrontations precisely because existing scientific paradigms are discredited, given that they did not manage to predict the implosion. This is what we have experienced in the context of the Eurozone and Greece. Roitman correctly emphasizes that crisis and critique are always related, and that the ontology of the crisis (whence the crisis stems) is inseparable from the epistemological horizon (how the crisis should be contextualised and analysed). She further emphasises that the standard explanation for any crisis usually involves the miscalculation or misrepresentation of a substantial value. This is the case in Greece with the misrepresentation of the budget deficit. But Roitman insists that one must go beyond this approach and ask how the infrastructure operates and how the value is *produced* rather than just represented. However, she does not offer an avenue for thinking through the changed ontology of the crisis outside of linguistic and representational registers (see Selmic, 2015), which is why I draw upon Deleuze and Guattari in order to understand how the ECB's measures themselves shaped the economic reality of the Greek crisis.

## **The ECB during the first phase of the crisis**

The chain of events that came to be known as the 'Greek crisis' began to unfold in 2010, in the wake of a global recession caused by the credit crunch in the US. While the discussion of the emerging phenomenon was strongly directed toward the responsibilities and flaws of the Greek state, ECB and IMF policy measures 'on the ground' were almost exclusively directed towards supporting private sectors (in the Eurozone). Moreover, austerity systems were imposed for disciplining and controlling Greek society through the reproduction of subjectivities, as well as economic mechanisms that produced a further increase in inequality.

Before I proceed with my analysis of Greek public debt and its interconnection with private financial institutions (both Greek banks and banks from central European countries), I first want to elaborate on how the ECB addressed the global challenge to the European banking system beginning in 2008, and present some figures related to the exposure of central European banks (predominantly German and French) to Greek finance (both public and private). In contrast to US policies in the aftermath of the credit crunch, which focused on slow consumer deleveraging and fiscal support, “the ECB in 2008-2012 did not embark on a similar monetary stimulus; rather, its efforts were devoted to counteracting the effects of impairments to the banking system” (Pisani-Ferry, 2014: 112). Thus, in the wake of growing uncertainty spilling over from America, European commercial banks were undertaking massive restructuring of their securities: they intended to swap their long term positions for short ones. The scramble for liquidity as well as deleveraging was intensive, and the ECB addressed the banks’ concerns by offering long-term refinancing operations (LTROs), initially for one year, which is considered very long for a central bank operation (see Lapavitsas et al., 2012). In May 2009 the ECB announced the following:

The Governing Council of the European Central Bank has decided to conduct liquidity-providing longer-term refinancing operations (LTROs) with a maturity of one year. ... Moreover, the Governing Council of the European Central Bank has decided to prolong until the end of 2010 the temporary expansion of the list of eligible assets, announced on 15 October 2008. (ECB, 2009a: Paragraph 1, 5)

We see here how the ECB initiated its strategy of supporting banks at any cost, not only through the provision of short term securities, which enabled banks to swap their long-term positions, but also through the extension of eligible assets as collateral. Although Lapavitsas (2012) does not mention this, since December 2011 the ECB has offered even longer LTROs with a maturity of two and three years – exceptionally long for a central bank operation – with options for exit after every year. In addition the ECB, in cooperation with the US Federal Reserve, started providing different liquidity programmes for US dollars as well as currency swap arrangements. Given that European banks at the time wanted to reduce their exposure in US dollars and American banks wanted to reduce their exposure in euros, the central financial institutions provided conditions for liquidity intervention and currency risk reduction.

During the early phase of the global crisis (2009 and early 2010), one finds ECB analyses that emphasise the importance of public sector interventions, the transfer of risk from private to public domains, and liabilities that the state has taken on its own balance sheets in order to protect private banks. Consider the following statement, from a 2010 ECB *Financial Stability Review*:

An important lesson from economic history is that governments and, therefore, ultimately taxpayers have largely borne the direct costs of banking system crises. ... In many cases, governments also bore direct costs and expanded their balance sheets through injections of capital into banks, the extension of loans and the setting up of bad bank schemes. These far-reaching measures, which led to a substantial transfer of risk from financial sectors to the fiscal authorities, also had adverse impacts on the public debt positions of a number of euro area countries. (ECB, 2010a: 10)

As the crisis progressed, however, the narrative in ECB reports changed and the strategic blame game, with respect to economic and moral responsibility for the crisis, shifted from private to public finance, from bank balance sheets to ‘sovereign sinners’, ‘budget deficits’, and ‘public debts’. The ethical implications of the shift are evident, because discussions were no longer structured around the speculation-prone, unregulated, immoral, and destructive

dynamics of private banking, but rather around the alleged profligacy of the bloated, inefficient, and lazy public sector. This change provided a background for legitimising austerity measures as well as massive control and disciplinary mechanisms aimed at addressing ‘public profligacy’ and ‘improving the work ethic’.

This change in narratives was accompanied by modifications to policies ‘on the ground’ that were favourable to creditors in the EU financial sector, on the one hand, and detrimental to Greek public finance, on the other. The ECB’s narratives and policy measures, therefore, were not just affecting public understandings of the Greek crisis, but were also *creating a new financial and economic reality in the Eurozone*. In other words, the ECB’s influential reports, risk analyses, policy proposals, and press releases were running hand-in-hand with a-signifying policy measures such as the decrease (or increase on two occasions) of interest rates, the introduction of LTROs, and currency swaps. The crisis unmasked substantial flaws related to the ECB. The supposedly apolitical and technocratic ECB, as Stiglitz points out, has been making deeply political decisions, and “... in making their decisions, policymakers in the ECB have to make judgements with distributional consequences” (2016: 161). Further, the ECB has been focused exclusively on targeting inflation, in contrast to other central banks that focus also on employment, growth, financial stability, and even inequality.

In May 2009, the ECB published a thorough analysis that underscored the role of the public sector in protecting the banking systems of the Eurozone. The report also revealed how high levels of risk were being transferred onto public balances: “Banks merged with government support, or received capital injections, while in other cases banks had to undergo wholesale nationalisation. The scope and magnitude of the bank rescue packages also meant that significant risks were transferred onto government balance sheets” (ECB, 2009b: 14). At that time the Greek government contributed €28 billion to the Greek financial system in order to stabilise it (€5 billion in capital and the rest in guarantees), even though Greek banks were relatively well capitalised according to the Eurostat standards and reports. I would emphasise that this amount of €28 billion, which has since been shown as a liability on the public balances, was transferred a year before Prime Minister Andreas Papandreou announced in December 2009 that the Greek budget deficit was higher than had been publicly presented (see also TCPD, 2015). Note also that in 2008 and early 2009, well before the announcement in December 2009 that the Greek budget deficit was higher than expected, the Greek government bonds had already become exceptionally high in terms of interest. This shows that there was a more complex correlation between the progression of the crisis and the rise of government bonds, which is not related solely to the budget deficit.

In December 2009, the ECB officially discussed the potential risks should states withdraw their intervention and support (of private banks) too early:

All in all, the challenges facing the euro area banking sector in the period ahead call for caution in avoiding timing errors in disengaging from public support. In particular, exit decisions by governments will need to carefully balance the risks of exiting too early against those of exiting too late. Exiting before the underlying strength of key financial institutions is sufficiently well established runs the risk of leaving some of them vulnerable to adverse disturbances, possibly even triggering renewed financial system stresses. (ECB, 2009c: 17)

At a time of uncertainty in global financial markets, banks preferred to stay in short positions and improve their cash balances by keeping deposits in central banks, rather than lending to corporate and retail customers. Banks choose short term securities over sovereign bonds with longer maturity, and the swap mechanisms provided by the ECB looked like a safe option for



that. The fact that banks were reducing lending also contributed to the liquidity and solvency crisis in both the private and public sectors (see Lapavistas et al., 2012).

## Machinic enslavement

Having sketched out the general conditions of Greece's financial system at the beginning of the crisis, I turn now to the discussion of 'machinic enslavement'. The concept was originally developed in Deleuze and Guattari, but has been elaborated on by Lazzarato in his recent book *Signs and Machines*:

In machinic enslavement the individual is no longer instituted as an "individual subject", "economic subject" (human capital, entrepreneur of the self), or "citizen". He is instead considered a gear, a cog, a component part in the "business" and "financial system" assemblages, in the media assemblage, and the "welfare-state" assemblage and its collective institutions (schools, hospitals, museums, theatres, television, Internet, etc.). Enslavement is a concept Deleuze and Guattari borrowed explicitly from cybernetics and the science of automation. (Lazzarato, 2014: 25)

The seminal Foucauldian concept of 'governmentality', therefore, could and should be further discussed through the concept of machinic enslavement, in which individuals are not (only) defined on the basis of their social positions or representational roles – as social subjects – but also through "the governmentality of individuals managed by flows, networks, and machines ..." (Lazzarato, 2014: 37). This is not Callon's (1998; 2007) nor MacKenzie's (2010) calculative, usually apolitical and mostly rational analysis of technological assemblages in economy and their performative production, but rather a Deleuzian analysis of different social semiotics in which individuals are de-centralised, intertwined with networks, and produced through flows and systems of power. This produces subjectivities not only through representational registers and conscious behaviour, but also in "... the desires, beliefs, and sub-representational reality of subjectivity. Governmentality is practiced at the junction of the individual and the dividual, the individual as the dividual's subjectivation" (Lazzarato, 2014: 37-38). One has to understand that material and immaterial networks are intertwined and that they intensify each other, as well as human and non-human assemblages. Reducing the influence of the multiple semiotics to just ideology, representation, discourse, language, or media would be a substantial mistake, for:

Stock market indices, unemployment statistics, scientific diagrams and functions, and computer languages produce neither discourses nor narratives (these obviously have their places but among enslavements). ... The European Central Bank raises the discount rate by one percent and tens of thousands of "plans" go up in smoke for lack of credit. ... Social Security posts a deficit and measures to reduce "social spending" are put in place. (Lazzarato, 2014: 40)

Lazzarato mentions the ECB only once, but his point is clear: it is a machine, capable of affecting the economic and political realities of entire countries. It operates through a set of non-representational, mostly abstract, quantitative decisions such as the extension of acceptable collateral for sovereign borrowers; or the redefinition of bank collateral coming from a particular country; or through a suspension of liquidity, as we saw when the far-left political party Syriza won elections in Greece. For example, on 4 February 2015 the ECB announced that beginning 11 February 2015 it would cease to accept Greek government bonds as collateral, stating that "it is currently not possible to assume a successful conclusion of the programme review" (quoted in TCPD, 2015: 53).

Lazzarato does not mention this, but the ECB also operates through representational registers (see Holmes, 2014). It publishes influential press releases, annual reports, and so-called stability research. Thus, I would argue that only a thorough analysis of the ECB capacities on both levels – as the generator of a-signifying machinic enslavement, on the one hand, and as a producer of signifying economic knowledge about the crisis, on the other – can we better understand its role in the Greek and Eurozone crises and see it as an unprecedented system of power. Finally, and most importantly, we must keep in mind that the a-signifying and signifying practices create economic reality by controlling the *political economy of affects*, which should be distinguished from emotions because affects constitute a broader and more complex reality (see Marenko, 2010).

For Deleuze and Guattari, the production of desire is not part of the superstructure – a view that contradicts the position many Marxist-oriented theorists hold – but rather operates in the infrastructure. Correspondingly, I analyse the horizon of the political economy of affects in parallel. Simply put, in Greece individual and collective fear, uncertainty, feelings of guilt and responsibility were purposely spread through biased press and expert analyses, on the one hand, and the ECB's non-representational policies and measures such as the suspension of collateral or reduction of liquidity, on the other. The manner in which responsibility and ethics vis-à-vis Greek public debt were discussed and structured in public and subsequently perceived and internalised by Greek citizens was one of the crucial elements in imposing and executing austerity measures. With the acceptance of austerity measures, Greek citizens were publicly shamed because of their public debt and budget deficit, in order to experience a deep sense of responsibility and fear. Lazzarato (2014: 41) argues that “in the economic crisis, asignifying financial ratings and stock market indices have dominated, deciding the life and death of governments, imposing economic and social programs that oppress the government”. With respect to human actors, he continues: “The signifying semiotics of the media, politicians and experts are mobilized in order to legitimize support, and justify in the eyes of individuated subjects, their consciousness and representations, the fact that ‘there is no alternative’” (ibid.). A disjunction exists between these a-signifying measures and the ‘signifying semiotics’ that accompany them, and I would argue that this asymmetry applies fittingly to the ECB.

## Localising responsibility

European governments and the ECB were doing their best to improve the liquidity and solvency of the banking sector. Central European commercial banks were getting cheap liquidity through the mentioned channels (governments and ECB support), and were then buying lucrative sovereign bonds from peripheral Eurozone countries which started to grow slowly. As Pisani-Ferry notes, several German *Landesbanken* exemplify how:

... in a desperate attempt to shore up their financial positions, [they] had bought large amounts of high-yielding sovereign bonds issued by peripheral euro-area countries. Hypo Real Estate in particular, a Munich-based institution to which the German government eventually provided more than €100 billion in support, had invested €8 billion in Greek government bonds after taken large losses on subprime derivatives in 2007 and 2008. (2014: 88)

In 2011, during an official meeting between the then French President Nicolas Sarkozy and German Chancellor Angela Merkel, this was established as official strategy. Consolidation of the private banks was a top priority, so that the consolidated banks would be able to intervene in the sovereign bonds market and push their price down (Pisani-Ferry, 2014: 109). It was termed the ‘Sarkozy carry trade’ because the French President formally proposed it.

This process further extended the exposure of central European banks to peripheral countries, and I will now discuss the case of Greece. It is worth noting that sovereign bonds from the Eurozone periphery at that time, Greece included, were not considered risky. The aggregate debt of Greece (public plus private) in 2009 was around €703 billion, of which €293 billion was public debt. The total exposure of all Eurozone banks to Greece (not only French and German) at that time was around €206 billion, according to the Bank for International Settlements (Lapavitsas et al., 2012: 103). The structure of the exposure is as follows: exposure to the Greek public sector was 45%, to the banking sector 16%, and to the non-financial private sector 39% (TCPD, 2015: 15). Direct exposure of French banks to Greece in 2009 was around €60 billion and exposure of German banks was around €35 billion (TCPD, 2015: 19). Direct exposure to Greek public debt was around €31 billion by French banks and €23 billion by German banks (Lapavitsas, 2012:103). The massive exposure of German and French banks to Greek public and private debt demonstrates not only that they were deeply responsible for the crisis, but also that they were facing a serious risk. That is why the ECB was rushing to assist them at all cost.

The general market conditions in the Eurozone at the end of the 2009 and at the beginning of 2010 help us understand the ECB's strategies for addressing the crisis. Even before the Greek Prime Minister Papandreou announced in December 2009 that the budget deficit was much higher than had been publicly presented, politicians and policymakers had shifted attention from any relaxation of fiscal policies towards their tightening. One can argue that the Greek crisis was actually an unexpected gift for the proponents of 'deficit-cut fetishism' (Stiglitz, 2010) and helped them bolster and spread their rationale for crisis management and impose austerity policies across the Eurozone. Greece had become a laboratory for threatening other economies: if you do not impose tough austerity you will share the same destiny. Recall, too, the timing of the strategies used for fiscal control and discipline of the Eurozone nations. They started before the Greek crisis exploded because, as Pisani-Ferry (2014: 110) notes, "already in the autumn of 2009, barely a year after they had embarked on a coordinated stimulus, ministers of finance started to prepare an 'exit strategy' from it".

In 2010 one still finds in the ECB's June *Financial Stability Review* an unexpectedly nuanced genealogy of the sovereign debt crisis and the burden imposed on public finances, despite its neoliberal conclusions. The report singled out a decrease in tax revenues, albeit without mentioning the direct causes of the global recession in this context – financialisation and the credit crunch – and also blamed pre-crisis fiscal problems, as well as the Keynesian counter-cyclical policies that some countries across the Eurozone had begun to implement in 2008 before shifting to more neoliberal, pro-cyclical measures. Moreover,

.. the main reason for the severe deterioration of public finances was the activation of automatic stabilisers – that is the loss of tax revenue and higher government expenditure outlays that ordinarily results from weaker economic activity – as a consequence of the marked contraction of economic activity that followed the collapse of Lehman Brothers. Because the structural fiscal imbalances of a number of euro area countries were sizeable before the financial crisis erupted, fiscal deficits in those countries expanded to very high levels. Added to this were the discretionary fiscal measures taken by many countries to stimulate their economies following the agreement in December 2008 of the European Economic Recovery Plan. (ECB, 2010a: 10)

ECB analyses at the beginning of the Greek crisis defined the intersection of public and private sectors but expressed concern about the potentially catastrophic spill-over effect only from public to private finance, not the other way around. For example, the ECB reports draw

attention to the risk of crowding-out private investment in the case of progressive public-finance interventions by government; the risk of an uncontrollable rise in interest rates for banks' refinancing as a consequence of the sovereign debt crisis; the dangerous effects of the rise of sovereign bonds on corporate bonds; and the incapability of banks to issue bonds in the time of crisis. By the December 2012 *Financial Stability Review*, the asymmetry of the risk of spill-over effects between banks and sovereigns is openly acknowledged and discussed in depth: "Similarly, several other key policy interventions over the period from July 2011 to March 2012 helped to contain spillovers as captured by this index. In the last quarter, spillovers *from banks to sovereigns* increased considerably, while the potential for spillovers *from sovereigns to banks* remained subdued" (ECB, 2012b: 75, emphasis added). A similar point is made with respect to LTROs: "following the announcement of the three-year LTROs, the potential for spillover both across banking sectors and between banks and sovereigns decreased remarkably further. While those policy measures seem to have helped to tame funding pressures for banks, they nevertheless induced slightly higher potential spillover effects across sovereigns" (ECB, 2012b: 76). Taking this into account, it comes as no surprise that while public balance sheets were deteriorating across the Eurozone area, particularly in Greece since 2009, the profitability of banks was revived as early as 2010:

For the first quarter of 2010, those LCBGs (Large and Complex Banking Groups) that report on their financial performances on a quarterly basis showed a considerable improvement in their median ROE (Return on Equity), to above 11%. ... Indeed, for the first time since 2007, no euro area LCBG reported a net loss for the first quarter of 2010" (ECB, 2010a: 14).

### **The first bailout programme – a prologue to catastrophe**

From the end of 2009, when Prime Minister Papandreou announced that previous Greek governments had been fixing budget deficit figures, Greece faced a series of internally and externally imposed austerity measures. As the *Preliminary Report* produced by the Greek Truth Committee on Public Debt (TCPD) points out, "[t]his paved the way for the deterioration of the fiscal situation that allowed, under an 'emergency situation', to approve further injection of public resources to re-capitalize Greek banks. These measures quelled the expansion of the crisis to other European banks, effectively transferring the burden of the crisis to the Greek taxpayers" (TCPD, 2015: 19). There are also, however, several crucial and ominous details – not well known to the public – that should be added regarding the revision of the Greek budget deficit at the beginning of 2010.

While it is absolutely clear that earlier Greek governments had been manipulating budget figures through their derivative arrangement with Goldman Sachs, it is unclear how the figures should have been precisely corrected and revised. The authors of the above report describe further manipulation by the Papandreou government, this time in the opposite direction – that is, a deliberate increasing of the budget deficit. This was done through a biased reconsideration of certain non-validated liabilities that Greek hospitals possessed from 2005-2009. The derivative arrangement with Goldman Sachs was also retrospectively overestimated in terms of value related to the percentage of the budget deficit. The authors of the 2015 *Preliminary Report* estimate that through biased retroactive accounting, the Greek budget deficit was purposely misrepresented as 6-8% higher than it actually was. The authors consider the falsification of statistical data as "directly related to the dramatization of the budget and public debt situation. This was done in order to convince public opinion in Greece and Europe to support the bail-out of the Greek economy in 2010 with all its catastrophic

conditionalities for the Greek population” (TCPD, 2015: 18). “The banking crisis”, they conclude, “was underestimated by an overestimation of the public sector economic problems” (ibid.).

As sovereign Greek bond yields reached a new high in April 2010 and central European private banks, the main lenders to Greek banks and holders of said bonds, faced uncontrollable risk, it was obvious that unprecedented measures had to be taken. The Troika thus formed. It consisted of the ECB, the EU Commission and the IMF. The predominant aim of the Troika was, as I will show below, to stem the progression of the crisis into the private sector and create additional time for the private banks from central Europe to reduce their exposure to both public and private Greek debt. In May 2010 the Troika’s first package, worth €110 billion, was formally accepted by the Greek parliament. May 2010 saw an increase in ECB activities and measures, demonstrating the full capacity of this system of power. My analysis reveals deep political layers throughout the allegedly apolitical and independent economic institution, because all of the financial measures were accompanied by political decisions made by either the Greek government or the Parliament. Let me note in passing that at this time, when rapid and risky fiscal adjustments were imposed on Greece and many other peripheral countries, the US was running a very Keynesian and counter-cyclical policy with a budget deficit of 9.8% in 2009, 8.7% in 2010, and 8.4% in 2011. This provided the US with the possibility of getting out of recession in a quicker and much stronger way than the EU.

It must also be pointed out that just one day after the Greek Parliament confirmed the Memoranda of 3 May 2010, the ECB implemented its first measure directly related to Greek sovereign bonds, which suspended a minimum credit rating for collateral issued or guaranteed by the Greek government. However, the measure actually supported the holders of the debt instruments, who were predominantly central European banks. This is an example of the as-signifying, non-representative political measures that supported the private financial sector. Finally, the ECB decided on 10 May 2010 to create the Securities Market Programme for buying sovereign bonds on the secondary market. Time and again, we see that while the ECB was hesitant to support sovereign debtors, it rushed to assist private banks holding the sovereign bonds of peripheral countries in the Eurozone. In addition, the economic decisions at that time were accompanied by a political ultimatum, evident in the following statement:

The scope of the interventions will be determined by the Governing Council. In making this decision we have taken note of the statement of the euro area governments that they ‘will take all measures needed to meet [their] fiscal targets this year and the years ahead in line with excessive deficit procedures’ and of the precise additional commitments taken by some euro area governments to accelerate fiscal consolidation and ensure the sustainability of their public finances. (ECB, 2010b: para. 3)

From 2010 to 2012, the ECB bought on the secondary market around €210 billion in sovereign bonds issued by Greece, Italy, Portugal, Spain, and Ireland. This significantly reduced the pressure on central European creditors. But it was not until the crisis threatened a full-blown dissolution of the Eurozone in summer 2012, that the President Mario Draghi announced: “Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough” (ECB, 2012c: para. 19). The statement significantly helped sovereign borrowers by reducing the price of sovereign bonds.

### **The ECB during the second phase of the crisis**

The conditions of the measures jointly proposed by the ECB, the IMF and the European Commission require further analysis. Greece has to date received three financial packages.



The first was €110 billion in May 2010. The second was a sovereign bond swap worth €130 billion in March 2012, and in June 2015 there was another of approximately €86 billion. I will begin with the first package and its detrimental effects on the Greek economy. My larger contention is that the first two aid packages were meant to implement a radical model of economic, political, and moral control on the Greek economy and society. Correspondingly, this provided additional financial support and time for central European and Greek private banks to reduce their exposure to Greek debt, both public and private. The IMF openly acknowledged this in a document from 2013: “A delayed debt restructuring also provided a window for private creditors to reduce exposures and shift debt into official hands” (quoted in TCPD, 2015: 26). Although the amount of €240 billion in total for the two bail-out packages was repeatedly presented in public discourse as representing unprecedented support for the insatiable Greek state, this was not the case. An analysis produced for the Jubilee Debt Campaign shows that only 10% of the €240 billion paid through the financial packages ended up in the Greek public sector, while “€34.5 billion of the bailout money was used to pay for various ‘sweeteners’ to get the private sector to accept the 2012 debt restructuring. €48.2 billion was used to bailout Greek banks following the restructuring, which did not discriminate between Greek and foreign private lenders. €149.2 billion has been spent on paying the original debts and interest from reckless lenders. This means less than 10% of the money has reached the people of Greece” (Jones, 2015: para. 2).

The Troika anticipated a drop in Greek GDP in 2010 and 2011, but was adamant that in 2012 Greece would resume growth. All the predictions, however, have proved to be wrong, mostly because the Troika did not take into consideration the specific constellation of the Eurozone, rigidly implemented an anti-Keynesian understanding that underestimates demand coming from the public sector and, last but not least, because they used the wrong formula to calculate how quickly and how deeply the public cuts could go. Olivier Blanchard, the lead economist at the IMF at that time, expresses this in a paper he authored. He and his team ultimately came to the conclusion that they were using a wrong multiplier in a formula that calculates how reductions in public expenditure affect output (Blanchard and Leigh, 2013). In 2010 Greek GDP dropped 4.9%, and in 2011 it dropped 7.2%. With such an intensive and spiralling recession it was impossible to meet any fiscal targets. In 2010, however, the President of the ECB, Jean-Claude Trichet, was still decisive about the positive combination of austerity and prospects for growth: “It is an error to think that fiscal austerity is a threat to growth and job creation” (ECB, 2010c: para. 28). The exact figures in terms of the predicted Greek GDP are revealing: “GDP was supposed to decrease by only 1.5% between 2009 and 2014 (-4.0% in 2010, -2.6% in 2011, +1.1% in 2012 and +2.1% in 2013 and 2014). In reality, GDP declined by 22% in this period” (TCPD, 2015: 33).

During the two years between 2010 and 2012, the Greek public sector was completely devastated. The Truth Committee on Public Debt’s *Preliminary Report* persuasively documents the effects of the measures:

Successive wage cuts and tax hikes brought massive lay-offs, erosion of labour standards, increased job insecurity, and widespread precariousness, with over-flexible, lowly-paid jobs where women and young predominate. The minimum wage was pushed below poverty thresholds. Unemployment exploded from 7.3% to 27.9% (2008-2013). Public sector employment decreased from 942,625 to 675,530 between 2009-2013, with pay shrinking by over 25%. Private sector wages fell at least 15% till 2013. Youth unemployment reached 64.9% in 2013, decimating prospects of accessing the job market. (TCPD, 2015: 38)

The second bailout programme was worth a total of €130 billion and contained so-called 'private sector involvement'. It was actually a massive bond swap, in which private investors agreed to a 'haircut' of around 53%, but also received an immediate award worth €34.5 billion for it, in the form of securities with a maturity of one or two years. The new bonds were guaranteed not by the Greek state but by the European Financial Stabilisation Fund (EFSF). In addition, €48 billion of the €130 billion was allocated to recapitalise Greek banks. This recapitalisation of the Greek private banking sector was transferred onto government balance sheets and included in public debt figures. Regarding the time of repayment for the Greek public debt, the second package – contrary to general perception – did not provide any significant advantage. This is because the 'sweeteners' for private investors (€34.5 billion) had to be repaid within a year or two. Coupled with financial obligations towards the ECB and the IMF that were not part of the deal, this actually made Greek financial obligations during the period from 2012 to 2014 worse than they had been before. It was only later that the public debt was restructured and the repayment period extended. During the most intense part of the recession, when relief was most needed, financial obligations were not reduced.

The ECB's role in the production of knowledge regarding the crisis shifted over time. I have shown how at the beginning of the financial turmoil in 2009 and 2010 one can distinguish a nuanced genealogy of the crisis in ECB materials, which demonstrates a transfer of the burden from the private to the public sector. As the crisis progressed, however, the tone changed substantially and focused instead on fiscal and structural discipline as well as risks associated with the profligacy of sovereign borrowers. In June 2012, for example, the ECB published the following statement:

The first – and arguably most concerning – key risk to euro area financial stability relates to sovereign vulnerabilities at the heart of this stage of the financial crisis, the origins of which lie half a decade in the past. A resurgence in sovereign market tensions within some euro area countries has implied renewed increases in bond yields, along with signs of tension in bond markets. The containment and reversal of such trends rests upon action to address vulnerabilities that persist amongst several sovereigns. It is clear that several euro area countries need to repair both their fiscal positions and prospects, as do other major advanced economies. (ECB, 2012a: 8)

The causes of the crisis are thus attributed to sovereign vulnerabilities. Moreover, fiscal positions are placed at the centre of economic prospects, not counter cyclical and state-mediated investments in innovation and strategic industries, which are only capable of generating growth for the troubled economies (see Mazzucato, 2015).

## **Conclusion**

In closing, I want to emphasise that the progression of the so called 'sovereign debt' crisis in the Eurozone, with Greece at its centre, illustrates two parallel processes. The first relates to the global recession caused by private banks and the bolstering of the private financial sector by state(s) and international institutions such as the ECB and the IMF. The second relates to the production of specific knowledge regarding the supposed moral and economic dysfunctionality of the public sector. What these two processes have in common is their transfer of financial and moral burden from private financial institutions and their shareholders to the public sector and ordinary tax payers. Within economic and political constellations, sovereign creditors – with the ECB at the centre – used their systems of power to discredit sovereign borrowers, and attributed the causes of the crisis almost exclusively to the Greek public sector. This rationale was the main instrument for legitimising and

intensifying austerity measures, which ostensibly aimed at improving the Greek economic and moral infrastructure, but in reality were destroying the economy and society. In Greece these measures produced what Mirowski (2013: 137), drawing on Antonin Artaud, has termed the “neoliberal theatre of cruelty”, in which the actual victims of the Eurozone crisis were labelled as the main culprits.

The goal of the strategic blame game can now be clearly elaborated. While the vast majority of private banks in the central areas of the Eurozone, those highly exposed to sovereign bonds of the peripheral countries as well as subprime toxic assets from the US, managed to quickly consolidate their positions and regain profitability in 2010 (albeit with ECB support), countries at the periphery and Greece in particular have gone through a prolonged and detrimental period of recession and austerity. The private sector experienced a one-off loss in 2012 in terms of bond swaps as part of the second bailout, but this is incomparable with the overall losses transferred onto the Greek state. I have shown that this complex manoeuvre resulted in financial costs for the crisis and for private bank consolidation being paid for mostly by the public sectors of the proscribed Eurozone periphery, especially Greece. But in order for this manoeuvre to operate smoothly and remain disguised, with the ECB as the main operator, the Eurozone “morality play” (Krugman, 2016: par. 13) had to be publicly performed. Moreover, in the rest of Europe there is occasionally a perverse satisfaction in watching the Greek theatre of cruelty, as Mirowski (2013) notes in the American context, related perhaps to the fact that people elsewhere, no matter how gloomy their austerity is, still enjoy relative stability in comparison to Greece, where youth unemployment reached 50%, public debt to GDP reached 180%, a third of GDP was wiped out, and massive brain drain occurred, all of which led to a suffocation of alternative futures.

In order to better understand the depth and totality of the Greek crisis, I have proposed a genealogical reading on two levels – financial infrastructure and explanatory superstructure – and correlated them synchronically. I hope to have demonstrated how the economic reality evolved, the role of biased knowledge production in the crisis, and its human consequences. My aim was to elucidate these two parallel processes in the context of the ECB and the Greek public sector, and consequently show how the measures implemented by the ECB bolstered the private sector at the expense of the general public.

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